

Louisville Gas & Electric Company Credit Union
P. O. Box 32040 • Louisville, Kentucky 40232



*Affiliated with
Kentucky Credit
Union League*

*CUNA
CUNA Mutual
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March 31, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Advanced Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704

Dear Ms. Rupp:

I would like to take this opportunity to comment on the recently issued Advance Notice of Proposed Rulemaking (ANPR) to 12 CFR Part 704.

I commend the NCUA for allowing natural person credit unions the opportunity to express our thoughts and viewpoints as a part of this evaluative process.

Louisville Gas & Electric Co Credit Union is \$24 million in assets, has 2,970 members, and serves employees, retirees and family members of E.ON US LLC and its subsidiaries. We are currently members of Kentucky Corporate FCU and use many of their services including: settlement, ACH receipt, international & domestic wires, line of credit and investments.

Payment System: *The NCUA requested comments on ways to "isolate" payment system service risks by separating it from other businesses (legally or operationally) or establishing capital requirements specifically for payment system operations.*

Payment systems and investments do not need to be isolated. Each service offers different risk levels and those risks should be recognized and mitigated to the extent that they can. The focus with all services should be on appropriate capital levels and proper liquidity to meet demand.

Liquidity and Liquidity Management: *The NCUA requested comments on ways to preserve or strengthen a Corporate's ability to provide liquidity.*

Providing liquidity by aggregating member funds is one of the cornerstone functions corporate credit unions were created to perform. The elimination of liquidity as corporate's core service would be potentially threatening to the viability of the credit union system during periods of tight liquidity.

However, a corporate should not be limited to just providing liquidity. The natural person credit union should be able to depend on its corporate for other products as well. If corporates were to be limited, then credit unions and its members would feel the effects by losing affordable access to new products, services or technologies.

Field of Membership Issues: *The NCUA notes that national fields of membership for corporates and the resulting competition may have resulted in significant risk taking. It requests comment on narrowing the fields of membership.*

The current issues facing the Corporate Network have not been caused by the field of membership, but by the investment risks assumed by some individual corporates.

Credit unions have utilized the corporates' open field of membership to their advantage by negotiating the highest rates possible and in turn enjoying greater returns that can be shared with members.

Expanded Investment Authority: *The existing NCUA regulations give corporates the option to exercise additional investment authorities. The NCUA requests comments on modifying these requirements.*

Expanded investment authorities allowed under the current Reg. 704, meant that some corporates chose to assume additional risk within their portfolio. The additional risk came at a large expense to all credit unions by impairing the NCUSIF deposit and paying a mandatory assessment. The amount of the impairment is much greater than any additional dividend realized from the riskier investments.

Corporates investment options should only be slightly broader than what natural person credit unions are allowed to invest in to allow corporates to add value to its membership. Added risk should be offset by additional capital to absorb potential losses.

Structure: two-tiered system: *The NCUA seeks comment on whether the two-tier corporate system structure (US Central and individual corporates) is appropriate.*

The premise behind the two-tier corporate structure was to centralize resources. There remains an advantage to member credit unions for the corporate system to continue centralizing functions and aggregating balances as long as the investment authority is limited.

Corporate Capital - Core Capital: *The NCUA requests comment on establishing a minimum "Tier One Capital" ratio. Tier One capital at corporates currently is retained earnings and paid-in capital. Commenters are asked to offer their view on an appropriate capital ratio, as well as a time frame to attain the capital level.*

The present core capital ratio of 2% minimum in this economic environment has proven to be inadequate to support the potential losses. The capital requirement should move towards the Basel standards – a risk-based capital system currently used by other financial institutions. These standards currently include a minimum 4% Tier One Capital ratio and minimum risk-based capital ratios.

Membership Capital: *The NCUA requests comment on membership capital restrictions. This includes (1) changes in terms/conditions to meet the definition of "Tier Two Capital" under banking regulations, (2) the mechanics involved in adjusting member capital balances, (3) the delayed payout of downward membership capital adjustments for three years, and (4) restrictions on member withdrawals if the corporate falls below its capital requirements.*

Natural person credit unions should be allowed to maintain a contributed capital account with a corporate. If a credit union were to give notice, a reasonable period of time for capital payback and cancellation of services with the corporate should be given. For this purpose, a reasonable time period is considered 12 months.

Permissible Investments: *The NCUA requests comment on limiting permissible investments at corporates to those that exist for federally-chartered natural-person credit unions.*

Corporate credit unions' investment powers should be greater than that of the natural person credit unions in order for the corporates to add value to their members in the form of a return. The investment powers should be based on the proper infrastructure to support the amount of risk. The regulation should clearly define what is permissible, how it is to be monitored, and identify all the risk components inherent in the investments options. The gross issues that are currently being experienced in the corporate industry today is largely due to concentration risk. Corporate investments should be monitored to ensure it is mitigating risk by spreading out investments among other asset classes.

Credit Risk Management: *The NCUA requests comments on revising the reliance on credit ratings from Nationally Recognized Statistical Rating Organizations (NRSROs). Comments are requested on setting concentration or sector limits and the independent evaluation of credit risk within regulation.*

Reliance on NRSROs has been a necessity of financial institution regulation for years. The regulation should be amended to include more than one rating on an investment. The lowest rating must satisfy the minimum rating requirements of the corporate regulation. Even though the rating agencies have come into question, they still represent the best opportunity to get an outside opinion on the quality of the investment.

Also, as previously mentioned, higher overall capital requirements for corporates will mitigate some of the concentration or sector risks. These risks should be monitored on an individual corporate basis during a thorough examination process.

Asset Liability Management: *The NCUA requests comments on requiring net interest income or spread widening modeling in regulation.*

NCUA should require net interest income modeling and stress testing for all corporates to protect the investments of credit unions. Corporates with expanded investment authorities need to be properly monitored to make sure they are following their modeling and stress testing procedures.

Corporate Governance: *The NCUA requests comments on minimum qualifications, training requirements, term limits, and compensation of corporate directors. Comments on corporate board structure (requiring outside directors or natural-person credit union representation at US Central) and disclosure of executive compensation were also requested.*

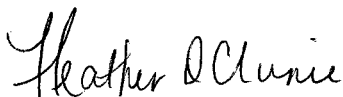
The board structure at retail and wholesale credit unions should be made up of individuals who offer expertise in the operations of corporate credit unions or natural person credit unions. Ongoing education and training of board members should be required. Term limits should be examined while considering the time and expense to properly train board members. The term length should not be so short that adequately experienced and educated board members cannot be retained. The better approach may be to limit length of time any individual board members may hold officer positions. This would ensure adequate change of leadership without squandering experienced directors.

Directors should be unpaid to correlate with volunteerism and the credit union movement as a whole.

In closing, I appreciate the opportunity to comment regarding the future of the corporate system and understand that sound and prudent judgment dictates that NCUA and the industry carefully review the role and structure of the corporate system going forward.

I encourage the agency to keep our views and needs in mind regarding the new regulation as a healthy and strong corporate system is essential to assist us in serving our members.

Sincerely,



Heather D. Clunie
CEO
(502) 627-3436